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Labor Market Institutions and Global Strategic Adaptation: Evidence from Lincoln Electric

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Abstract

Although one of the central questions in the global strategy field is how multinational firms successfully navigate multiple and often conflicting institutional environments, we know relatively little about the effect of conflicting labor market institutions on multinational firms' strategic choice and operating performance. With its decision to invest in manufacturing operations in nearly every one of the world's largest welding markets, Lincoln Electric offers us a quasi-experiment. We leverage a unique data set covering 1996–2006 that combines data on each host country's labor market institutions with data on each subsidiary's strategic choices and historical operating performance. We find that Lincoln Electric performed significantly better in countries with labor laws and regulations supporting manufacturers' interests and in countries that allowed the free use of both piecework and a discretionary bonus. Furthermore, we find that in countries with labor market institutions unfriendly to manufacturers, Lincoln Electric was still able to overcome most (although not all) of the institutional distance by what we term flexible intermediate adaptation.

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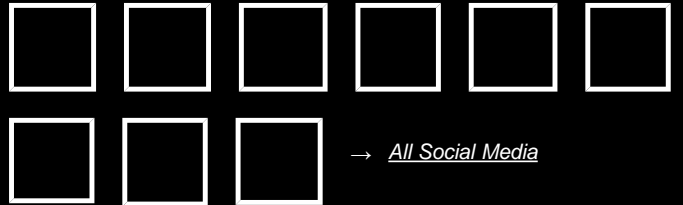
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